

**CALIFORNIA STATEWIDE AUTOMATED  
WELFARE SYSTEM CONSORTIUM IV  
(A Joint Powers Authority)**

**Financial Statements  
and  
Supplemental Information  
with  
Independent Auditors' Report**

**For the Year Ended  
June 30, 2005**

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**POWELL & SPAFFORD, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA  
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Licensed by the California Board of Accountancy  
Member: American Institute of Certified Public Accountants

### Independent Auditors' Report

To the Governing Board  
California Statewide Automated Welfare System  
Consortium IV

We have audited the accompanying financial statements of the governmental activities, and major fund of the California Statewide Automated Welfare System Consortium IV (A Joint Powers Authority) as of and for the year ended June 30, 2005, which collectively comprises the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State Controller's "Minimum Audit Requirements and Reporting Guidelines for California Special Districts." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and its major fund of the California Statewide Automated Welfare System Consortium IV as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

As more fully described in Note 3 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, as of July 1, 2004. This results in a change to the Authority's disclosures to its basic financial statements regarding the Authority's deposits and investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2007 on our consideration of California Statewide Automated Welfare System Consortium IV's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise California Statewide Automated Welfare System Consortium IV's basic financial statements. The Reconciliation of Special Districts Financial Transactions Report with Audited Financial Statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the California Statewide Automated Welfare System Consortium IV. The reconciliation of special districts financial transactions report with audited financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Lowell & Spafford, LLP*

April 4, 2007

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Statement of Net Assets**

June 30, 2005

<b>ASSETS</b>	
Cash in County Treasurer	\$ 122,932
Receivables	
State of California	4,522,282
Consortium member counties	2,484,429
County of San Bernardino - interest	<u>18,952</u>
	7,148,595
Capital assets, net of accumulated depreciation and amortization	<u>198,060,283</u>
Total assets	<u>205,208,878</u>
<b>LIABILITIES</b>	
Accounts payable	4,606,841
Due to the State of California - interest	294,446
Due to the County of San Bernardino	892
Non-current liabilities	
Due within one year	4,495,573
Due in more than one year	<u>16,356,993</u>
Total liabilities	<u>25,754,745</u>
<b>NET ASSETS</b>	
Invested in capital assets	179,454,133
Unrestricted	<u>\$ -</u>
Total net assets	<u>\$ 179,454,133</u>

*The accompanying notes are an integral part of these financial statements.*

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Statement of Activities**

For The Year Ended June 30, 2005

<b>Expenses</b>	
Service and supplies	\$ 12,836,334
Depreciation and amortization	35,831,541
Interest on debt	<u>2,536,574</u>
Total expenses	51,204,449
<b>Program revenues</b>	
Operating grants	12,417,944
Capital grants	<u>62,126,096</u>
Net program revenues (expenses)	23,339,591
<b>General Revenues</b>	
Local revenues - consortium member counties	365,214
Loss on disposal of capital assets	(61,472)
Investment income	<u>53,175</u>
	356,917
Change in net assets	23,696,508
Net assets, beginning of year	<u>155,757,625</u>
Net assets, end of year	<u>\$ 179,454,133</u>

*The accompanying notes are an integral part of these financial statements.*

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Balance Sheet**

**Governmental Fund**

June 30, 2005

<b>Assets</b>	
Cash in County Treasurer	\$ 122,932
Receivables	
State of California	4,522,282
County of San Bernardino - interest	<u>18,952</u>
Total assets	<u>\$ 4,664,166</u>
 <b>Liabilities and fund balance</b>	
<u>Liabilities</u>	
Accounts payable	\$ 4,606,841
Due to the State of California	294,446
Due to the County of San Bernardino	<u>892</u>
Total liabilities	<u>4,902,179</u>
 <u>Fund balance</u>	
Unreserved - undesignated (deficit)	<u>(238,013)</u>
Total liabilities and fund balance	<u>\$ 4,664,166</u>
 Amounts reported for governmental activities in the statement of net assets are different because:	
Fund balance	\$ (238,013)
Long-term receivables used in governmental activities are not financial resources and, therefore are not reported in the funds.	2,484,429
Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	198,060,283
Long-term liabilities, including capital leases, and advance due the State of California are not due and payable in the current period and therefore are not reported in the funds.	<u>(20,852,566)</u>
Net assets of governmental activities	<u>\$ 179,454,133</u>

*The accompanying notes are an integral part of these financial statements.*

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Statement of Revenues, Expenditures,  
and Changes in Fund Balance - Governmental Fund**

For the Year Ended June 30, 2005

<b>Revenues</b>	
Intergovernmental	\$ 74,544,040
Investment income	53,175
	<u>74,597,215</u>
<b>Expenditures</b>	
Current:	
Service and supplies	12,836,334
Capital outlay	63,922,251
Debt service:	
Principal retirement	3,625,643
Interest	2,536,574
	<u>82,920,802</u>
Excess of revenues over (under) expenditures	(8,323,587)
<b>Other Financing Sources (Uses)</b>	
Proceeds from advance - State of California	127,202
Capital lease agreements	7,958,372
Excess of Revenues and Other Sources	
Over (Under) Expenditures and Other Uses	(238,013)
<b>Fund balance</b>	
Balance, beginning of year	-
Balance (deficit), end of year	<u>\$ (238,013)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance	\$ (238,013)
Local revenues from consortium member counties are not available and therefore not considered revenues in the current period. However, they are revenue in the statement of activities.	365,213
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation or amortization expense. This is the amount by which capital outlay exceeds depreciation, amortization and loss on disposal of capital assets.	28,029,239
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	<u>(4,459,931)</u>
Change in net assets of governmental activities	<u>\$ 23,696,508</u>

*The accompanying notes are an integral part of these financial statements.*



**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Statement of Revenues, Expenditures,  
and Changes in Fund Balance - Budget and Actual - Governmental Fund**

For the Year Ended June 30, 2005

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget - Positive (Negative)</b>
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Actual</u></b>	
<b>Revenues</b>				
Intergovernmental	\$ 89,730,327	\$ 89,718,909	\$ 85,877,262	\$ (3,841,647)
Investment income	<u>-</u>	<u>-</u>	<u>42,181</u>	<u>42,181</u>
	<u>89,730,327</u>	<u>89,718,909</u>	<u>85,919,443</u>	<u>(3,799,466)</u>
<b>Expenditures</b>				
Service and supplies	78,445,763	77,595,736	74,649,047	2,946,689
Capital outlay	3,620,440	5,858,518	5,160,178	698,340
Debt service, principal and interest	<u>7,664,124</u>	<u>6,264,655</u>	<u>6,162,217</u>	<u>102,438</u>
	<u>89,730,327</u>	<u>89,718,909</u>	<u>85,971,442</u>	<u>3,747,467</u>
Excess of revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(51,999)</u>	\$ <u>(51,999)</u>

*The accompanying notes are an integral part of these financial statements.*

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**1. Summary of Operations and Significant Accounting Policies**

**Reporting Entity**

The California Statewide Automated Welfare System Consortium IV (the Authority) was formed in 1998 under the California Government Code Section 6500 et. seq. The Authority includes the counties of San Bernardino, Riverside, Merced and Stanislaus, and was created for the purpose of the design, development, implementation, and on-going operation and maintenance of an automated welfare system to be used by each of the four counties. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Joint Powers Authorities. The Authority accounts for its financial transactions in accordance with the policies and procedures included in the "Minimum Audit Requirements and Reporting Guidelines for California Special Districts" issued by the State Controller's Office, Division of Local Government Fiscal Affairs.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Generally accepted accounting principles require that these financial statements present the accounts of the Authority and any of its component units. Component units are legally separate entities for which the Authority is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Authority's operations, so the accounts of these entities are to be combined with the data of the Authority. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status. However, the Authority has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority currently has no business-type activities.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**1. Summary of Operations and Significant Accounting Policies (Continued)**

**Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The Authority considers all revenues available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Expenditures are recorded when a liability is incurred, as under the accrual basis of accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority reports the following major governmental fund:

*General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Budgets and Budgetary Accounting**

By state law, the Authority's Governing Board must approve a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The Authority's Governing Board satisfied these requirements. Amendments were made to the original budget adopted during the year due to changes in funding at the state level.

Formal budgetary integration was employed as a management control device during the year for the budgeted fund. The Authority employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**1. Summary of Operations and Significant Accounting Policies (Continued)**

**Budgets and Budgetary Accounting (Continued)**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**Cash in County Treasurer**

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes mandate the Authority maintain substantially all of its cash in the San Bernardino County Treasury. The County's investment pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares, is readily convertible to cash, available for immediate withdrawal and is therefore considered a cash equivalent for financial statement reporting purposes.

**Capital Assets**

Capital assets, which include computers and software, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the estimated useful life of 2-5 years for computers and 3 years for software.

**2. Cash in County Treasurer**

Cash in County Treasurer is considered an investment in an external investment pool. These funds are reported at market value as determined by quoted market prices in the financial statements of the Authority.

*Credit Risk – Investments*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The County Treasurer's investments consist of 65.9% federal agencies, 19.1% of commercial paper, 6.4% of certificates of deposit, 3.9% U.S. Treasuries, 3.5% of repurchase agreements, .4% of municipal debt and .8% of money market funds. The credit ratings for these investments include AAA, A-1+ and A-1. The carrying value and market value as of June 30, 2005 for the Authority was \$129,073 and \$122,932, respectively.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**2. Cash in County Treasurer (Continued)**

*Custodial Credit Risk – Deposits*

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of a failure of the counter party (e.g. broker-dealer) to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contains legal or policy requirements that would limit the Authority's exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

*Interest Rate Risk – Investments*

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the County of San Bernardino Treasurer manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of its portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity of operations. The weighted average maturity of the County of San Bernardino Treasurer's investments is generally one year or less.

**3. Reconciliation of Government-wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

Receivable – consortium member counties	
Advance – State of California	\$ 2,246,417
Maintenance and operations percentage share	<u>238,012</u>
	\$ <u>2,484,429</u>
Capital assets	\$ 242,422,474
Accumulated depreciation	<u>(44,362,191)</u>
	\$ <u>198,060,283</u>
Advance – State of California	\$ 2,246,417
Capital leases payable	<u>18,606,149</u>
	\$ <u>20,852,566</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**3. Reconciliation of Government-wide and Fund Financial Statements (Continued)**

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Local revenue – consortium member counties	
Current year advance – State of California	\$ 127,202
Maintenance and operations percentage share	<u>238,011</u>
	\$ <u>365,213</u>
Capital outlay	\$ 63,922,251
Depreciation, amortization and loss on disposal	<u>(35,893,012)</u>
	\$ <u>28,029,239</u>
Capital leases entered into	\$ 7,958,372
Current year advance – State of California	127,202
Principle retirement of capital leases	<u>(3,625,643)</u>
	\$ <u>4,459,931</u>

**4. Receivables**

State of California – Claims receivable	\$ 4,522,282
Consortium Member Counties:	
Advances due the State of California	2,246,417
Receivables from consortium members for percentage share of	
Maintenance & operations:	
Stanislaus	137,206
Merced	100,806
San Bernardino County – interest	<u>18,952</u>
	\$ <u>7,025,663</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**5. Capital Assets**

The following is a summary of the changes in capital assets during the year:

	Balance <u>7-1-04</u>	<u>Additions</u>	Disposals/ <u>Transfers</u>	Balance <u>6-30-05</u>
Computer hardware	\$ 922,830	\$ 2,909,449	\$ (281,734)	\$ 3,550,545
Computer hardware under capital Leases	16,430,216	7,958,372	(23,381)	24,365,207
Software	11,477,564	2,250,728	200,778,430	214,506,722
Less:				
Accumulated depreciation	(6,107,050)	(31,362,220)	231,694	(37,237,576)
Accumulated amortization of capital leases	<u>(2,667,244)</u>	<u>(4,469,321)</u>	<u>11,950</u>	<u>(7,124,615)</u>
	20,056,316	(22,712,992)	200,716,959	198,060,283
Software development in progress	<u>149,974,729</u>	<u>50,803,701</u>	<u>(200,778,430)</u>	-
	<u>\$170,031,045</u>	<u>\$ 28,090,709</u>	<u>\$ (61,471)</u>	<u>\$ 198,060,283</u>

Depreciation expense amounted to \$31,362,220 for the year ended June 30, 2005.

**6. Non-current Liabilities**

Capital lease obligations

The Authority has entered into capital lease obligations for computer hardware, included under capital assets with a cost of \$24,365,207. The following is a schedule of the future minimum lease payments under these capital leases as of June 30, 2005:

<u>Years ended June 30,</u>	
2006	\$ 6,732,910
2007	6,625,869
2008	5,806,444
2009	3,889,736
2010	<u>570,693</u>
Total minimum obligations	23,625,652
Less amounts representing interest	<u>5,019,503</u>
Present value of minimum obligations	<u>\$18,606,149</u>

Amortization expense included with depreciation expense on the statement of activities amounted to \$4,469,321 for year ended June 30, 2005.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**6. Non-current Liabilities (Continued)**

Advances – State of California

The consortium member counties collectively are required to pay 5% of the application development costs of the Statewide Automated Welfare System. Since construction began, the State of California has funded/advanced these costs. However, upon implementation of the system each consortium member will be required to repay the State for these advances. The determination of each consortium member's share is proportionate to the member's individual caseload compared to the total consortium caseload upon execution of the original contract for application development.

Consortium members must begin repayment twelve months after implementation of the program and have up to four years to repay all amounts due to the State of California.

As of June 30, 2005 amounts due the State of California are as follows:

<u>For the Years Ended June 30.</u>	<u>Advances</u>
2001	\$ 92,259
2002	1,216,309
2003	499,748
2004	310,899
2005	<u>127,202</u>
	<u>\$ 2,246,417</u>

The following is a summary of the changes in non-current liabilities during the year:

	<u>Capital Lease Obligations</u>	<u>Advance State of California</u>	<u>Total</u>
Balance at July 1, 2004	\$ 14,273,420	\$ 2,540,558	\$ 16,813,978
Additions	7,958,372	127,202	8,085,574
Change in estimate		(421,343)	(421,343)
Retirements	(3,625,643)	<u>-</u>	<u>(3,625,643)</u>
Balance at June 30, 2005	\$ <u>18,606,149</u>	\$ <u>2,246,417</u>	\$ <u>20,852,566</u>
Due within one year	\$ 4,495,573	\$ -	\$ 4,495,573
Due in more than one year	<u>14,110,576</u>	<u>2,246,417</u>	<u>16,356,993</u>
Total	\$ <u>18,606,149</u>	\$ <u>2,246,417</u>	\$ <u>20,852,566</u>



**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**7. Related Party Transactions**

The County of San Bernardino (the County) provides controllership responsibilities for the Authority at a specified rate per transaction. Total amounts paid and due the County for these services amounted to \$0 and \$892, respectively at June 30, 2005.

**8. Budget/GAAP Reconciliation**

The budget as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is reported using the cash basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). This method does not recognize receivables, payables, capital lease payments as a reduction of debt service and interest expense, or the capitalization of certain costs related to software development. A reconciliation of the Budget Basis to the Statement of Revenues, Expenditures and Changes in Fund Balance is as follows:

	<u>Budget Basis</u>	<u>Actual</u>	<u>Change</u>
<u>Intergovernmental revenues</u>			
Conversion from cash basis to accrual basis	\$ 85,877,262	\$ 74,544,040	\$ (11,333,222)
<u>Investment income</u>			
Conversion from cash basis to accrual basis and fair market value adjustment	42,181	53,175	10,994
<u>Service and supplies</u>			
Conversion from cash basis to accrual basis and reclassification to capital expenditures and debt service	(74,649,047)	(12,836,334)	61,812,713
<u>Capital outlay</u>	(5,160,178)	(63,922,251)	(58,762,073)
<u>Debt service</u>			
Principal	(3,625,643)	(3,625,643)	-
Interest	(2,536,574)	(2,536,574)	-
Proceeds from advance – State of California	-	127,202	127,202
Capital lease agreements	-	<u>7,958,372</u>	<u>7,958,372</u>
Net change budget basis to GAAP basis	\$ <u>(51,999)</u>	\$ <u>(238,013)</u>	\$ <u>(186,014)</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV  
(A JOINT POWERS AUTHORITY)**

**Notes to Financial Statements**

**9. Commitments & Contingencies**

The Authority contracts with a single vendor for a majority of its expenditures, related to the design, development, implementation, maintenance and operation of the new welfare automated integrated system. The Authority disburses funds to the contractor based on monthly expenditure and performance reports received from the contractor.

Payments under the contract are contingent upon approval and acceptance by the Authority and appropriate state and federal agencies.

In addition, payments under the contract are contingent upon the availability of county, state and federal funding. If funding to make payments under the terms of the contract is not forthcoming from the state legislature or the federal government for the project, or is not allocated or allotted to the Authority by the State Department of Finance for payment in the current or any future fiscal period, then the obligations of the Authority to make payments after the effective date of such non-allocation or non-funding will cease and terminate. The total future commitment under the contract is \$421,868,900 that is allocated for project deliverables, including planning development, installation, training and management of the project, equipment and third party software, maintenance and operations and facilities leasing.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2005

Program Name	Federal Catalog Number	Program Expenditures
<u>Passed through the State of California</u>		
<b>U.S. Department of Health and Human Services</b>		
Temporary Assistance to Needy Families	93.558	\$ 26,067,376
KinGAP	93.558	111,587
Refugee	93.566	3,583
Foster Care Title IV-E	93.658	1,160,243
Medical Assistance Program	93.778	<u>27,575,358</u>
Total Department of Health and Human Services		<u>54,918,147</u>
 <b>U.S. Department of Agriculture</b>		
Food Stamp Administration	10.561	<u>19,048,706</u>
Total Department of Agriculture		<u>19,048,706</u>
Total federal programs		<u>\$ 73,966,853</u>

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133,  
Audits of States, Local Governments, and Non Profit Organizations.

Reconciliation of the Schedule of Expenditures of Federal Awards to intergovernmental revenues on the Statement  
of Revenues, Expenditures and Changes in Fund Balance:

Total federal programs	\$ 73,966,853
State grants	<u>577,187</u>
Intergovernmental revenues	<u>\$ 74,544,040</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**  
**(A Joint Powers Authority)**

**Reconciliation of Special Districts Financial Transactions Report**  
**with Audited Financial Statements**

June 30, 2005

	<u>General and Special Revenue Funds</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
June 30, 2005, per Special Districts Financial Transactions Report governmental fund type fund balance	\$ 175,564	\$ 236,840,148	\$ 18,597,523
To reclassify reduction in receivable from State of California	(175,564)		
To reclassify current year receivable - consortium member counties	(238,013)		
To reclassify current year fixed asset additions		5,573,700	
To report increase in current year capital leases		8,626	8,626
To report prior year advances from State of California			2,119,215
To report current year advance from State of California	<u>-</u>	<u>-</u>	<u>127,202</u>
June 30, 2005, per audited financial statements	<u>\$ (238,013)</u>	<u>\$ 242,422,474</u>	<u>\$ 20,852,566</u>



**POWELL & SPAFFORD, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA  
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy  
Member: American Institute of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

To the Governing Board  
California Statewide Automated Welfare System Consortium IV

We have audited the financial statements of the California Statewide Automated Welfare System Consortium IV as of and for the year ended June 30, 2005 and have issued our report thereon dated April 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is not a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2005-2.

This report is intended solely for the information and use of the governing board, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Lowell & Spafford, LLP*

April 4, 2007



**POWELL & SPAFFORD, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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Patrick D. Spafford, CPA

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**Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133**

To the Board of Directors  
California Statewide Automated Welfare System Consortium IV

**Compliance**

We have audited the compliance of the California Statewide Automated Welfare System Consortium IV with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the Council's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in item 2005-2 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding cash management that are applicable to its Department of Health and Human Services major programs. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, California Statewide Automated Welfare System Consortium IV complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### Internal Control over Compliance

The management of the California Statewide Automated Welfare System Consortium IV is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the governing board, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Lowell & Spafford, LLP*

April 4, 2007



# CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

## Findings and Questioned Costs

For the Year Ended June 30, 2005

### Section I – Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued: An unqualified opinion.

Internal control over financial reporting:

Material weaknesses identified? ☐ yes ☒ no

Reportable conditions identified that are not considered to be material weaknesses? ☒ yes ☐ no

Noncompliance material to financial statements noted? ☐ yes ☒ no

#### Federal Awards

Internal control over major programs:

Material weaknesses identified? ☐ yes ☒ no

Reportable conditions identified that are not considered to be material weaknesses? ☒ yes ☐ no

Type of auditors' compliance report issued? Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? ☒ yes ☐ no

Identification of major program:

#### Identifying Number

CFDA #93.558

CFDA #93.558

CFDA #93.778

CFDA #10.561

#### Name of Federal Program

**Department of Health and Human Services**

Temporary Assistance to Needy Families

KinGAP

Medi-Cal

**Department of Agriculture**

Food Stamps

Dollar threshold used to distinguish between Type A and Type B programs:

\$2,219,006

Auditee qualified as low-risk auditee?

☐ yes ☒ no

# CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

## Findings and Questioned Costs

For the Year Ended June 30, 2005

### Section II – Financial Statement Findings

#### Internal Control Over Financial Reporting

##### 2005-1 – Management of Financial Reporting

*Condition and Criteria:* Improvements were made to designate individuals and departments responsible for providing and maintaining documentation necessary to complete required financial reporting. However, the Authority continues to file required regulatory reports and audited financial statements late.

*Context:* Not applicable.

*Effect:* The Authority may be subject to penalties and disallowance of future grant revenues.

*Cause:* Due to the late completion of the previous audit the Authority was unable to implement policies and procedures in a timely fashion for the year ended June 30, 2005.

*Recommendation:* The Authority needs to ensure that the policies and procedures in place are followed to ensure timely completion of required financial and regulatory reporting.

*Authority's Response:* The Authority concurs with the finding. The Authority's controller, San Bernardino County Auditor/Controller-Recorder's (ACR), has implemented procedures for gathering, summarizing, and reporting the accounting transactions and events for the Authority on an ongoing basis.

### Section III – Federal Award Findings and Questioned Costs

#### **Questioned Costs**

##### U.S. Department of Health and Human Services

Temporary Assistance to Needy Families and KinGap, CFDA No. 93.558, Medi-Cal, CFDA No. 93.778

##### U.S. Department of Agriculture

Food Stamps, CFDA No. 10.561

##### 2005-1 – Management of Financial Reporting

See Finding 2005-1. Data Collection Form not filed as of April 2007.

Unknown

## CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

### Findings and Questioned Costs

For the Year Ended June 30, 2005

#### 2005-2 – Cash Management

#### Questioned Costs

*Condition and Criteria:* The Authority has not submitted interest earned on excess funds to the pass-through entity, State of California, in accordance with OMB Circular A-102. Moreover, delays by the State of California in developing a process to return these funds have compounded the issue.

*Effect:* Time elapsing between the advances from the State of California and claims submitted to the State of California resulted in interest earnings and the delay by the State of California has increased the amount due to the state.

\$294,446

*Cause:* Temporary cancellation of invoices after requesting funds from the state of California resulted in inadvertent overpayment in prior years, which generated interest earnings from the County of San Bernardino. The Authority's current management has made a diligent effort to return the funds without success.

*Population and Items Tested:* Total interest reported on the Authority's financial statements.

*Recommendation:* We recommend that the Authority continue to request guidance from the State of California.

*Authority's Response:* The Authority will continue to monitor interest earned on excess funds, and will submit these funds to the State of California as soon as allowed.

#### Status of Prior Findings and Questioned Costs

##### U.S. Department of Health and Human Services

#### 2004-1 – Management of Financial Reporting (Material Weakness)

*Finding:* During the audit it was discovered that management does not have procedures in place to designate an individual or department responsible for providing and maintaining documentation necessary to complete required financial reporting. This resulted in the late filing of required regulatory reports and delayed the late completion of the audited financial statements.

*Recommendation:* We recommend that the Authority establish policies and procedures to ensure the proper maintenance of records necessary to complete required regulatory reports and the timely completion of the audit.

*Current Status:* Partially implemented – see current finding 2005-1.

# **CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**

## **Findings and Questioned Costs**

For the Year Ended June 30, 2005

### **Status of Prior Findings and Questioned Costs (Continued)**

#### **2004-2 – Approved Time Sheets**

*Finding:* During the testing of payroll it was discovered that certain time sheets were not properly approved by supervisory personnel from the County of Merced. OMB Circular A-87 requires that payroll costs charged to a grant be properly approved.

*Recommendation:* We recommend that the County of Merced personnel carefully review time sheets to insure proper approvals.

*Current Status:* Implemented.

#### **2004-3 – Cash Management**

*Finding:* The Authority is not promptly submitting interest earned on excess fund to the pass-through entity (State of California) or the federal agency in accordance with OMB Circular A-102.

*Recommendation:* We recommend that the Authority establish policies and procedures to conform to the requirements of OMB Circular A-102.

*Current Status:* See current finding 2005-2.